

S-E-C-R-E-T

14 FEB 1956

MEMORANDUM FOR: Chief, _____ Division

SUBJECT : Taxability of Allowance Payments to Contract Agents

REFERENCES : (a) Memorandum dated 23 December 1955 to D/PERS from Acting General Counsel, subject: "Grant of Allowances to Independent Contractors"

(b) Staff Study dated 19 January 1956, subject: "Taxability of Allowance Payments to Contract Agents"

(c) Memorandum dated 24 January 1956 to D/PERS from ADD/S, subject: "Review and Revision of Contracts with Individual Contract Personnel"

1. By Reference (a) the Office of the General Counsel advised that the exemption of overseas allowances from the Federal income tax applies only to officers and employees of the Government, and that with respect to contract agents and other independent contractor types, payments of additional amounts which purport to be allowances of the type granted to employees are subject to the Federal income tax in the same manner as the basic compensation under the contract. This ruling is applicable to all allowances, including quarters allowances and the value of living quarters furnished by the Government.

2. On 27 January 1956, the Deputy Director (Support) approved a recommendation (Reference b) to the effect that amounts paid to independent contractors in the nature of allowances for the tax year beginning 1 January 1956 and subsequent years will be regarded as additional compensation and reported as taxable income. Reference (b) further provides that for 1956 and future years:

a. New contracts will be written to reflect properly the taxability of additional payments for overseas service;

b. Existing contracts will be amended as necessary to clear up any possible misunderstanding or misinterpretation in this regard, and where appropriate, to provide additional income to offset the additional tax liability; and

c. To provide in contracts the basis for determination of the dollar value of quarters which are furnished contract agents in kind.

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3. By Reference (c) the Office of Personnel was directed to review the contracts of all U. S. Nationals who are independent contractors and whose contracts provide payments in the nature of allowances, for the purpose of amending those adversely affected by the inclusion of allowance payments as taxable income. Accordingly, Contract Personnel Division (CPD) is furnishing you as an attachment hereto a list of the names of those individuals who are currently under contracts which include allowance payments of some type. Pursuant to paragraph 2b. above, it is requested that for each named individual the following information be furnished to CPD:

- a. How the individual is to be advised of his increased tax liability - by contract amendment or by some other means.
- b. If by contract amendment, whether the total amount provided will remain the same or be adjusted to provide additional compensation to offset the increased tax liability.
- c. Whether it is the desire of the Area Division that amounts granted hereafter as additional overseas compensation to offset overseas living and quarters costs shall be maintained on a current basis in accordance with available standards, or shall remain fixed for the duration of the contract. (If the former, adjustments will be made quarterly by CPD as changed circumstances warrant on a unilateral basis, and the contract will so provide).

4. Upon receipt of the above information, CPD will take action to amend existing contracts as appropriate. Such contract amendments as may be processed pursuant to paragraphs 3 a. and b. above will be made effective as of 1 January 1956, unless otherwise requested. It should be noted that further contracts will be prepared as the circumstances in the individual case warrant.

Chief, Contract Personnel Division

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Attachment

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